

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendray
Marshall Johnson
Ken Nickolai
Thomas Pugh
Phyllis A. Reha

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of an Application by CenterPoint
Energy Minnegasco, a Division of CenterPoint
Energy Resources Corp., for Authority to
Increase Natural Gas Rates in Minnesota

ISSUE DATE: June 8, 2005

DOCKET NO. G-008/GR-04-901

ORDER ACCEPTING AND MODIFYING
SETTLEMENT AND REQUIRING
COMPLIANCE FILING

PROCEDURAL HISTORY

I. Initial Filings

On July 14, 2004, CenterPoint Energy Minnegasco, a Division of CenterPoint Energy Resources Corp., (CenterPoint or the Company) filed a general rate case, proposing to increase its rates for natural gas service by approximately 1.8%, or \$21,772,000 annually. On August 9, 2004, the Company made a supplementary filing explaining various assumptions underlying its rate case filing, especially those regarding the allocation of costs and revenues among Minnegasco, CenterPoint Energy Resources Corp., and affiliated entities.

On September 7, 2004, the Commission issued two Orders finding the rate case filing substantially complete as of August 9, accepting the rate case as of that date, and referring the case to the Office of Administrative Hearings for contested case proceedings. On September 10, 2004, the Commission issued its *Order Setting Interim Rates*, authorizing the Company to collect an across-the-board interim rate increase of \$16.869 million per year, or approximately 1.4%, for service rendered on or after October 1, 2004. Interim rates are collected subject to refund under Minn. Stat. § 216B.16, subd. 3.

II. The Parties

There were four active parties to the case: the Company, the Minnesota Department of Commerce (the Department), the Residential and Small Business Utilities Division of the Office of the Attorney General (RUD-OAG), and the Suburban Rate Authority (SRA). Northern Natural Gas filed a petition to intervene, which was granted, but did not file testimony or briefs and did not otherwise participate. The Minnesota Chamber of Commerce requested and was granted non-party, participant status.

The Company was represented by Eric Swanson, Attorney at Law, Winthrop & Weinstine, 225 South Sixth Street, Minneapolis, Minnesota 55402; Tracy Bridge, Director of Government and Public Relations, CenterPoint Energy, 800 LaSalle Avenue, Minneapolis, Minnesota 55402; and Brenda Bjorklund, Director, CenterPoint Energy Law Division, 800 LaSalle Avenue, Minneapolis, Minnesota 55402.

The Department was represented by Julia Anderson and Karen Hammel, Assistant Attorneys General, NCL Tower, Suite 1400, 445 Minnesota Street, St. Paul, Minnesota 55101.

The RUD-OAG was represented by Ron Giteck, Assistant Attorney General, NCL Tower, Suite 900, 445 Minnesota Street, St. Paul, Minnesota 55101.

The SRA was represented by James Strommen, Attorney at Law, Kennedy & Graven, 200 South Sixth Street, Suite 470, Minneapolis, Minnesota 55402.

Northern Natural Gas was represented by Lon Stanton, Government Affairs Manager, 1650 West 82nd Street, Suite 1250, Minneapolis, Minnesota 55431.

The Minnesota Chamber of Commerce was represented by Sandra Hofstetter, 10157 Ivywood Court, Eden Prairie, Minnesota 55347.

III. Proceedings Before the Administrative Law Judge

The Office of Administrative Hearings assigned Administrative Law Judge Richard C. Luis to hear this case. Judge Luis held a pre-hearing conference at which procedural and scheduling issues were resolved, and the Company, the Department, and the RUD-OAG all filed written testimony in the case.

On February 7, 2005, the Company and the Department filed an Offer of Settlement resolving all issues in the case between themselves. The Company subsequently adjusted one financial item, the allocation of membership dues, by \$32,561, in response to comments by the RUD-OAG; the Department concurred in this adjustment.

The RUD-OAG and the SRA did not oppose the settlement, except as to one issue – the residential customer charge. Both parties contended that the \$8.00 charge contained in the Offer of Settlement was too high, with the RUD-OAG urging retention of the current \$5.00 charge and the SRA stating that no reasonable charge could exceed \$6.50.

On February 18, 2005, the Administrative Law Judge held an evidentiary hearing, at which the parties and Commission staff questioned the witnesses who had submitted written testimony.

The Administrative Law Judge also held five public hearings throughout CenterPoint's service area – one by video conference linking locations in St. Paul, North Mankato, and Willmar, two in Minneapolis, one in Bloomington, and one in Coon Rapids. Over 75 community organizations and members of the public submitted letters or e-mails on the proposed rate changes to the Administrative Law Judge.

IV. Proceedings Before the Commission

On March 25, 2005, the Administrative Law Judge filed his Findings of Fact, Conclusions, and Recommended Order, in which he recommended accepting the Offer of Settlement.

On April 11 and 12, 2005, the RUD-OAG and the SRA, respectively, filed exceptions to the Administrative Law Judge's Report on the issue of the residential customer charge.

On May 17, 2005, the Commission held oral argument, and the record closed under Minn. Stat. § 14.61, subd. 2.

FINDINGS AND CONCLUSIONS

I. The Legal Standard

Under the Public Utilities Act, utilities seeking a rate increase have the burden of proof to show that the proposed rate change is just and reasonable. Minn. Stat. § 216B.16, subd. 4. Any doubt as to reasonableness is to be resolved in favor of the consumer. Minn. Stat. § 216B.03.

The Act requires the Commission to set rates to encourage conservation and renewable energy use to the maximum reasonable extent. Minn. Stat. § 216B.03. The Commission is permitted to consider ability to pay as a factor in setting utility rates and is authorized to establish programs to ensure affordable, reliable, and continuous service to low-income residential ratepayers. Minn. Stat. § 216B.16, subd. 15.

The Act also encourages settlements. Before beginning contested case proceedings on a general rate case, Administrative Law Judges are required to convene a settlement conference for the purpose of encouraging settlement of some or all of the issues in the case. They are authorized to reconvene the settlement conference at any point before the case is returned to the Commission, at their own discretion or at the request of any party. Minn. Stat. § 216B.16, subd. 1a (a).

The Commission is authorized to accept, reject, or modify any settlement. It can accept a settlement only upon finding that to do so is in the public interest and is supported by substantial evidence. Minn. Stat. § 216B.16, subd. 1a (b).

While the Commission recognizes that compromise is a key ingredient of any settlement, it also recognizes that resolving disputed issues in rate cases is fundamentally different from resolving disputes between private litigants:

In deciding whether to accept the Offer of Settlement, the Commission must apply a different standard than is normally used by the courts. Unlike the traditional function of civil courts, the Commission's primary function is not to resolve disputes between litigants. Instead, it is an affirmative duty to protect the public interest by ensuring just and reasonable rates.

In the Matter of a Petition by the U.S. Department of Defense, the General Services Administration, and All Other Federal Executive Agencies of the United States Challenging the Reasonableness of the Rates Charged by Northwestern Bell Telephone Company, Docket No. P-421/CI-86-354, ORDER ACCEPTING OFFER OF SETTLEMENT (February 10, 1988) at 3.

Because rate case decisions can have far-reaching consequences for persons who were not at the negotiating table, the Commission has long required settling parties to document that all issues have been settled within the zone of regulatory reasonableness:

In non-ratemaking settlement negotiations it is common for parties to concede some issues to obtain a more favorable resolution of others they value more highly. This is reasonable and appropriate in private disputes, where the goal of the settlement process is to reach a result satisfactory to all parties. In Commission proceedings, however, the goal of the process is to serve the public interest.

This requires protecting the interests of the Company, the public, and all customer classes, whether or not their interests are vigorously represented. It requires resolving every issue within the bounds of acceptable regulatory practice, since future rate structures are built on the foundations established in past rate cases. For these reasons the Commission scrutinizes settlements with care and requires documentation of the reasonableness of the disposition of all issues.

In the Matter of the Application of Interstate Power Company for Authority to Change its Rates for Natural Gas Service in the State of Minnesota, Docket No. G-001/GR-90-700, ORDER ACCEPTING AND ADOPTING STIPULATION AND OFFER OF SETTLEMENT (June 27, 1991), at 6-7.

II. Summary of Commission Action

The Offer of Settlement filed by the Company and the Department cites to record evidence to support and explain its disposition of every issue, and the technical hearing conducted by the Administrative Law Judge clarified and expanded the record at several key points. With one exception, the Commission finds that all issues—including the adjustment to membership dues allocations made in response to comments from the RUD-OAG and the modifications to the service quality plan agreed to at oral argument—have been settled within the zone of regulatory reasonableness, in a manner supported by substantial evidence, and on terms consistent with the public interest.

The one exception is the settlement's treatment of the residential customer charge. For the reasons set forth below, the Commission will modify the settlement and set that charge at \$6.50, instead of the \$8.00 proposed in the settlement and recommended by the Administrative Law Judge. As to all other issues, the Commission will accept and adopt the settlement and the Administrative Law Judge's findings, conclusions, and recommendations.

III. Settlement Modified as to Residential Customer Service Charge

A. Introduction

The residential customer charge is a fixed monthly charge assessed without regard to usage levels. It is designed to recover fixed costs that do not vary with usage, such as constructing and maintaining infrastructure, reading meters, and conducting billing and collection services.

The customer charge has two main functions, one practical and one grounded in ratemaking policy. Its practical function is to help stabilize utility revenues and reduce the risk that the utility will over- or under-recover its revenue requirement due to weather-related fluctuations in gas usage and sales. Its ratemaking function is to ensure that each customer bears responsibility for a certain level of the Company's fixed costs regardless of usage.

Theoretically, the Company recovers its revenue requirement whether customer charges are high or low; all the costs it is authorized to recover are built into either the customer charge or usage charges, which are carefully calibrated, based on normalized weather data and forecasted sales volumes, to yield the authorized revenue requirement. As a practical matter, however, companies usually prefer the certainty of fixed monthly charges to the fluctuation of usage charges.

CenterPoint's current monthly residential customer charge is \$5.00; that charge is on the lower bound of the range of residential charges approved for Minnesota's natural gas utilities.¹

In its original filing, the Company sought to increase the residential customer charge to \$16.00. Its Class Cost of Service Study, required in every rate case, determined that that was the approximate, average, fixed monthly cost of serving a residential ratepayer. In the Offer of Settlement, the Department and the Company agreed upon an \$8.00 monthly residential customer charge, which the Administrative Law Judge found to be just and reasonable. The charge was to apply to all residential customers in both service areas.

B. Positions of the Parties; Public Comment

The Company and the Department supported the \$8.00 customer charge in the settlement as a reasonable means of stabilizing utility revenues, preventing or reducing high-usage customers' subsidization of low-usage customers' bills, and reducing fluctuations in the monthly bills of customers not using levelized monthly payment options.

The RUD-OAG and the SRA opposed the increase from \$5.00 to \$8.00 on grounds that it would act as a disincentive to conservation and have a disproportionate, negative impact on low-income ratepayers. The RUD-OAG argued that any increase in the \$5.00 charge would be unreasonable; the SRA argued that an increase of up to \$1.50 (for a total monthly charge of \$6.50) could be justified in the interest of compromise and parity with other natural gas utilities.

¹ Currently, other natural gas utilities' monthly customer charges are as follows: Great Plains Natural Gas Company, \$5.50; Alliant Energy - Interstate Power, \$5.00; Aquila Networks-NMU, \$5.50; Aquila Networks-PNG, \$6.50; Xcel Energy, \$6.50.

Most of the public comments submitted in the case focused on and opposed the proposal to increase the residential customer charge. The Administrative Law Judge summarized the public input as follows:

The majority of the written comments focused on two interrelated issues. Many low-income customers take measures to conserve energy and believe the proposed increase in the customer charge would negate those measures. Further, low-income and low-use customers would pay a disproportionate share because they are using less natural gas, but their customer charge would be increased the same amount as residential customers who consume much more natural gas. Therefore, the proposed increase would discourage conservation measures and penalize low-use, low-income customers. Many commentators advocated to increase rates based on usage by increasing the cost per therm, not by increasing the customer charge. One commentator recommended an exemption for people who do not use natural gas as their primary heating source to promote alternative energy sources.

Finding 66, Report of the Administrative Law Judge.

C. Commission Precedent

Rate design decisions are policy-intensive and are made as part of the Commission's quasi-legislative function. In rate design the Commission continues to base its decisions on the facts in the record, but it also draws heavily on its institutional expertise, experience, and judgment.

It analyzes facts, balances competing rate design goals, weighs conflicting equitable claims, and considers the probable consequences of different rate designs on state energy policy goals. Residential customer charges implicate all these factors and have therefore consistently received careful scrutiny in rate cases.

In the Company's last rate case, the Commission summed up its experience with residential customer charges as follows:

In final Orders in the past several rate cases in which the Commission has examined customer charges, it has expressed grave reservations about permitting greater reliance on these ratemaking devices. Customer charges tend to confuse and alienate customers, neutralize conservation incentives, burden low income households, and perpetuate pricing structures ill-suited to competition. For these reasons, the Commission will maintain Minnegasco's customer charges at their current levels.

Customer charges are especially troublesome in the residential context. The cardinal goals in residential ratemaking are making rates understandable, making them easy to administer, and maintaining public confidence in their fairness. Customer charges work at cross purposes with these goals.

In the Matter of the Application of Minnegasco, a Division of NorAm Energy Corp., for Authority to Increase Its Natural Gas Rates in Minnesota, Docket No. G-008/GR-95-700, Findings of Fact, Conclusions of Law, and Order (June 10, 1996), at 64-65, footnote omitted.

D. \$8.00 Residential Customer Charge Rejected as Excessive

Having examined the record as a whole, including the public comment file, the Commission concludes that the settlement's proposed 60% increase in the residential customer charge is excessive and not in the public interest.

There are three main reasons for this decision—the potential for adverse impacts on low-income households, the statutory directive to set rates to encourage conservation and renewable energy use, and the strong public interest in maintaining clear and credible residential utility rates. Each factor will be considered in turn.

1. Impact on Low-Income Households

The Commission has consistently viewed high customer charges as burdensome to low-income households, and it continues to do so. While the Company argued that the usage levels of low-income customers are just as high as those of other customers—and that low-income customers would therefore not be adversely affected by shifting more revenue recovery from usage charges to the customer charge—the facts in the record do not bear out this claim.

The claim rests mainly on Company records showing that customers who use the federal Low Income Heating Assistance Program (LIHEAP) typically have usage levels just 6% below average usage levels. While even this 6% differential demonstrates lower usage levels among low-income customers, it probably does not capture the full usage differences between low-income and average-income households.

Not only does the LIHEAP program serve just a fraction of Minnesota's low-income households, but, by statute and in practice, outreach efforts and eligibility standards for the program target and favor high-usage customers.² Usage patterns for LIHEAP customers, therefore, are not a reliable proxy for usage patterns of low-income customers in general.

The only empirical study in the record comparing the energy-use patterns of low-income households and other households is a 1997 study by the United States Department of Energy, which was introduced in a public hearing by the Green Institute and the Phillips Community Energy Cooperative.³ That study shows a clear correlation between household income and natural

² Findings 105 and 106, Report of the Administrative Law Judge.

³ U.S. Department of Energy, Energy Information Administration, Residential Consumption Survey, 1997.
(<http://www.eia.doe.gov/emeu/consumptionbriefs/recs/natgas/income.html>)

gas usage, with usage rising as income rises. It severely undermines the Company's claim that there are no significant differences in the energy consumption of low-income households and other households.

Furthermore, *all* public comment on this issue, which was voluminous, held that high customer charges disadvantage low-income customers. Similarly, all community leaders and organizations who addressed this issue opposed high customer charges and supported usage-based pricing as essentially fairer and less onerous for low-income customers.

The Commission concludes that its longstanding concern about the impact of customer charges on low-income households is not misplaced and that the \$8.00 customer charge proposed in the Offer of Settlement would adversely affect low-income consumers.

2. Effect on Conservation and Renewable Energy Use

The Public Utilities Act directs the Commission to set rates to encourage conservation and renewable energy use to the maximum reasonable extent. Minn. Stat. § 216B.03. This directive could not be clearer, and its goals could not be more central to the Act and to the Commission's mission. Any rate structure with the potential to discourage conservation and renewable energy use faces a heavy burden of proof, which the proposed \$8.00 customer charge fails to meet.

The most powerful tool for heightening conservation-consciousness is maintaining a clear link between consumption and cost. Customer charges, by definition, weaken this link. And while business and institutional customers can be expected to devote the time and energy required to master the intricacies of utility rate structures and determine the precise relationship between fixed and variable charges, it is unreasonable to demand this level of engagement from residential customers.

The public testimony and written comments bear this out, with customer after customer recounting conservation measures that they have undertaken and believe would be rendered less valuable if not worthless by a significantly higher customer charge. Similarly, several customers reported investing, or planning to invest, in renewable technology solar water heating systems which they view as much less cost-effective in light of a much higher customer charge.

These are precisely the sorts of signals and disincentives the statute seeks to avoid by directing the Commission to set rates to encourage conservation and renewable energy use.

3. Effect on Clear, Understandable, Credible Rate Structures

Finally, none of the reasons given for increasing the customer charge by 60% better resource allocation through more accurate price signals, greater revenue stability, fairer distribution of fixed costs are compelling enough to justify adopting a rate design that residential customers find confusing at best and unreasonable at worst.

In residential ratemaking, making rates understandable, making them easy to administer, and maintaining public confidence in their fairness are cardinal goals. The proposed increase in the customer charge conflicts with at least two out of three of these goals, besides falling particularly heavily on low-income households and contravening a legislative directive to set rates to encourage conservation and renewable energy use.

In short, the Commission finds that any advantages the \$8.00 customer charge might offer in terms of economic efficiency and revenue stability are more than offset by its adverse impact on low-income households, its tendency to neutralize conservation incentives in the minds of residential customers, and its potential to undermine customers' confidence in the reasonableness of the rate structure.

E. \$6.50 Residential Customer Charge Adopted

The SRA conceded that a \$1.50 increase in the \$5.00 residential customer charge would be reasonable; the Commission agrees and will so order.

The last time the Company's customer charge was adjusted was in its 1992 rate case; since that time, the Consumer Price Index (CPI) has gone up by roughly 25%⁴. While the 60% increase proposed in the settlement significantly exceeds inflation as measured by the CPI, the 30% increase represented by a \$6.50 customer charge does not.

Since permitting inflation adjustments to customer charges carries fewer risks than overhauling rate structures to rely on them more heavily, since customer charges do perform the helpful function of stabilizing utility revenue, and since the amount of money at issue—\$1.50 per month—is relatively small by almost any standard, the Commission will permit the Company to institute a new residential customer charge of \$6.50.

IV. Variances Granted to Permit Nonconforming Billing of Large Commercial and Industrial Customers

The Company requested variances to portions of the customer service rules to give it more flexibility in dealing with commercial and industrial customers whose gas usage levels are so high that their failure or inability to pay could jeopardize the Company's financial stability. The Company proposed to adopt a Large Commercial/Industrial Credit Policy Tariff Rider, which would apply to customers using at least 120,000 dekatherms per year. Currently, 47 customers fall into that category, and those 47 customers consume some 14% of the gas distributed by the Company.

The Company requested the ability to examine these customers' creditworthiness in more detail than the rules allow for other customers, to institute weekly billing when credit problems occur, to require larger cash deposits or other payment guarantees than the rules anticipate and to hold them for longer periods of time, and to use abbreviated notice periods before disconnecting for non-payment. The settlement recommended granting these variances, as did the Administrative Law Judge. No one opposed them.

⁴ Initial Brief, CenterPoint Energy.

The Commission concurs that these variances should be granted. Under Minn. Rules 7829.3200, subp.1, the Commission may vary any of its rules upon making the following findings:

- A. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- B. Granting the variance would not adversely affect the public interest; and
- C. Granting the variance would not conflict with standards imposed by law.

The Commission finds that enforcing the customer service rules in their entirety as to these Large Commercial and Industrial customers would impose an excessive burden on the Company and its other customers by severely hampering the Company's ability to adopt commercially reasonable policies and practices to protect itself and its ratepayers from significant bad debt exposure.

The Commission also finds that granting the variances requested would not adversely affect the public interest. In fact, it would serve the public interest by protecting the general body of ratepayers against the possibility of rate increases necessitated by bad-debt losses. And it would do this without imposing any credit or payment policies that would be unfamiliar or unfair to these very large, very sophisticated business customers.

Finally, granting these variances would not conflict with standards imposed by law, and would in fact comport with normal commercial practice.

For all these reasons, the Commission will grant the requested variances and approve the Large Commercial/Industrial Credit Policy Tariff Rider proposed in the settlement.

V. Service Quality Plan Refined

Finally, as agreed by all parties at hearing, the Commission will refine the Company's service quality plan to require expanded reporting on specific performance measures, more frequent reporting on others, and collaboration with the parties on making others more informative.

VI. Overall Financial Schedules

A. Gross Revenue Deficiency

The above Commission findings and conclusions result in a Minnesota jurisdictional gross revenue deficiency of \$8,987,000, as shown below:

Revenue Requirement Summary
Test Year Ending September 30, 2005
(000's omitted)

Average Rate Base	\$ 516,074
Rate of Return	8.03%
Required Operating Income	\$ 41,441
Operating Income	\$ 36,172
Income Deficiency	\$ 5,269
Gross Revenue Conversion Factor	<u>1.7056</u>
Gross Revenue Deficiency	<u><u>\$ 8,987</u></u>

B. Rate Base Summary

Based on the above findings, the Commission concludes that the appropriate rate base for the test year is \$516,074,000, as shown below:

Rate Base Summary
Test Year Ending September 30, 2005
(000's omitted)

UTILITY PLANT IN SERVICE

Intangible	\$ 443
Production	16,493
Underground Storage	17,275
Other Storage	14,968
Distribution	871,198
General	<u>110,489</u>
Total Utility Plant in Service	<u><u>\$ 1,030,866</u></u>

ACCUMULATED RESERVE

Intangible	\$ 441
Production	13,281
Underground Storage	16,654
Other Storage	14,794
Distribution	442,003
General	<u>31,777</u>
Total Accumulated Reserve	<u><u>\$ 518,950</u></u>

NET UTILITY PLANT IN SERVICE	\$	511,916
OTHER RATE BASE ITEMS		
Gas Stored Underground - Noncurrent		478
Customer Advances		(278)
Accumulated Deferred Income Taxes		(68,202)
Working Capital Requirements		
Materials and Supplies	\$	4,226
Gas Stored Underground - Current		49,825
Liquified Natural Gas Stored		1,699
Liquified Petroleum (Propane) Gas		4,242
Initial Margin - Forward Futures Contracts		4,678
Prepayments		454
Other Deferred Debits and Credits		(7,600)
Other Cash Working Capital (lead lag study)		<u>14,636</u>
Total Working Capital	\$	<u>72,160</u>
TOTAL GAS RATE BASE	\$	<u><u>516,074</u></u>

C. Operating Income Summary

Based on the above findings, the Commission concludes that the appropriate Minnesota jurisdictional operating income for the test year under present rates is \$36,172,000, as shown below:

Operating Income Summary Test Year Ending September 30, 2005 (000's omitted)

OPERATING REVENUE		
Sales of Gas		
Residential	\$	649,967
Commercial & Industrial		<u>282,562</u>
Total Firm	\$	932,529
Dual Fuel		237,532
Transportation		4,469
Other		<u>1,595</u>
Total	\$	1,176,125
Late Payment Charges		4,796
Other Operating Revenue		<u>15</u>
Total Operating Revenue	\$	<u><u>1,180,936</u></u>

OPERATING EXPENSES

Cost of Gas Purchased	\$ 960,942
Production	567
Other Gas Supply	834
Underground Storage	757
Other Storage	637
Distribution & Utilization	25,055
Customer Accounts	25,790
Customer Service & Utilization	9,575
Sales of Gas	924
Administrative and General	35,689
Maintenance	8,757
Depreciation and Amortization	<u>40,853</u>
Total Operation, Maint & Deprec	\$ <u>1,110,380</u>
Federal and State Income Taxes	12,307
Deferred Income Taxes	2,401
Investment Tax Credit Adjustment	(464)
Other Taxes	20,140
AFUDC	<u>0</u>
TOTAL UTILITY OPERATING INCOME	\$ <u><u>36,172</u></u>

VII. Compliance Filing Required

The Commission will require the Company to make a compliance filing within 15 days of the date of this Order showing the final rate effects of the decisions made here and proposing a plan for refunding the difference between the amounts it collected in interim rates and the amounts it is authorized to collect in final rates. The Commission will establish a brief comment period to give interested persons a chance to review and comment on that filing.

The Commission will so order.

ORDER

1. The Commission finds that the record demonstrates that CenterPoint Energy Minnegasco, a Division of CenterPoint Energy Resources Corp., is entitled to increase its gross annual Minnesota jurisdictional revenues by \$8,987,000, in order to produce total gross annual jurisdictional operating revenues of \$1,189,923,000.
2. The Commission modifies the settlement submitted by the Company and the Department to set the residential customer charge at \$6.50 instead of \$8.00. In all other respects, the Commission accepts and adopts the settlement, including the adjustment to membership dues made at the request of the Residential and Small Business Utilities Division of the Office of the Attorney General and concurred in by the Department of Commerce and the adjustment to the customer service quality plan agreed to by all parties at hearing.

3. The customer service quality plan contained in the settlement is hereby modified as follows:
 - A. CenterPoint shall provide the information contained in its Minn. Rule 7820.0500 annual report on Public Utilities Commission formal complaints on a quarterly basis, and provide this same information on a quarterly basis for complaints from other state agencies and the Better Business Bureau.
 - B. CenterPoint shall begin reporting (1) the total number of calls its Call Center receives and (2) the number of these calls that come into the dedicated line for emergencies, billing inquiries, credit/payment arrangements, and service connection/disconnection requests.
 - C. CenterPoint shall work with the parties on reporting more detailed information about its Call Center complaints, including its emergency response times.
4. The Commission accepts and adopts the findings, conclusions, and recommendations of the Administrative Law Judge, with the exception of Finding 115 and Conclusions 3 and 4. These findings and conclusions are rejected for the reasons set forth above.
5. The Commission hereby varies Minn. Rules, parts 7820.2400, 7820.3300, 7820.4200, 7820.4300, 7820.4500, 7820.4600, 7820.4700, and 7820.5300, to permit the Company to implement the Large Commercial/Industrial Credit Policy Tariff Rider proposed in the Offer of Settlement.
6. Within 30 days of the date of this Order, the Company shall file with the Commission, for its review and approval, and shall serve on all parties to this proceeding, a compliance filing implementing the decisions made herein and containing at least the following items:
 - A. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:
 1. A breakdown of Total Operating Revenues by type.
 2. Schedules showing all billing determinants for the retail sales (and sale for resale) of gas, including but not necessarily limited to the items set forth below.
 - a. Total revenue by customer class.
 - b. Total number of customers, the customer charge and total customer charge revenue by customer class.
 - c. For each customer class, the total number of commodity and demand related billing units, the per unit commodity and demand cost of gas, the non-gas unit margin, and the total commodity and demand related sales revenues.

3. Revised tariff sheets incorporating authorized rate design decisions.
4. Proposed customer notices explaining the final rates and the monthly basic service charge.
- B. A revised base cost of gas and supporting schedules incorporating any changes made as a result of this rate case, and automatic adjustments establishing the proper adjustments to be in effect at the time final rates become effective.
- C. A calculation of the Conservation Improvement Program (CIP) conservation cost recovery charges (CCRC) based on the decisions made herein and schedules detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor), and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.
- D. Copies (revised as necessary) of all standard customer service agreements and contracts for inclusion in CenterPoint Energy's tariff book.
- E. A proposal to make refunds of interim rates, including interest calculated at the average prime rate, to affected customers.
7. Comments on the filing required under paragraph 6 shall be filed within 15 days of the date of the filing.
8. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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